

**SOUTH CAROLINA  
DEPARTMENT OF AGRICULTURE -**

**PORK BOARD**

For the Year Ended June 30, 1999



Office of the State Auditor

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November 18, 1999

The Honorable James H. Hodges, Governor  
and  
Members of the South Carolina Pork Board  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Agriculture – Pork Board for the fiscal year ended June 30, 1999, was issued by Wilkes & Company, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink that reads 'Tom Wagner'.

Thomas L. Wagner, Jr., CPA  
State Auditor

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
PORK BOARD

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For the Year Ended June 30, 1999

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## INDEPENDENT AUDITORS' REPORT

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

We have audited the accompanying balance sheet of the South Carolina Department of Agriculture - Pork Board special revenue fund as of June 30, 1999, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the Year 2000 Issue. The South Carolina Department of Agriculture - Pork Board has included such disclosures in Note 7. Because of the unprecedented nature of the Year 2000 Issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Pork Board's disclosures with respect to the Year 2000 Issue made in Note 7. Further, we do not provide assurance that the Pork Board is or will be year 2000 ready, that the Pork Board's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Pork Board does business will be year 2000 ready.

As described in Note 1, the Financial Statements of the South Carolina Department of Agriculture - Pork Board special revenue fund are intended to present the financial position and results of operations of only that portion of the funds of the South Carolina Department of Agriculture attributable to the transactions of the Pork Board special revenue fund and do not

Mr. Thomas L. Wagner, Jr., CPA  
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South Carolina Office of the State Auditor  
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include any other amounts or funds of the South Carolina Department of Agriculture or any other department or component unit of the State of South Carolina and are not intended to present fairly the financial statements and results of operations of the South Carolina Department of Agriculture in conformity with generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had we been able to examine evidence regarding year 2000 disclosures, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the South Carolina Department of Agriculture - Pork Board as of June 30, 1999 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Columbia, South Carolina  
September 7, 1999

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**BALANCE SHEET**

June 30, 1999

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ASSETS

Cash	\$ 116,664
Accounts receivable	<u>3,545</u>
Total Assets	<u>\$ 120,209</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts payable	\$ <u>616</u>
Total Liabilities	<u>616</u>
Fund Equity:	
Fund balance (unreserved)	<u>119,593</u>
Total Liabilities and Fund Equity	<u>\$ 120,209</u>

THE ACCOMPANYING NOTES ARE

AN INTEGRAL PART OF THIS STATEMENT

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE**

For the Year Ended June 30, 1999

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Revenues:	
Assessment proceeds-National Pork Board	\$ 43,499
South Carolina Pork Conference registration fees	<u>2,535</u>
Total Revenues	<u>46,034</u>
Expenditures:	
Education and research	14,735
Consumer products marketing	18,729
Promotions	16,638
Administration and operations	<u>11,520</u>
Total Expenditures	<u>61,622</u>
Deficit of Revenues Over (Under) Expenditures	(15,588)
Fund Balance - July 1, 1998	<u>135,181</u>
Fund Balance - June 30, 1999	<u><u>\$ 119,593</u></u>

THE ACCOMPANYING NOTES ARE



AN INTEGRAL PART OF THIS STATEMENT

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
PORK BOARD

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Entity Description**

The South Carolina Pork Board was established as a commodity board under Section 46-17-190 of the South Carolina Code of Laws in 1962 and is included as part of the South Carolina Department of Agriculture. The Department of Agriculture is considered part of the State of South Carolina's primary government and is included in the State of South Carolina's Comprehensive Annual Financial Report as such. This is based on guidance provided by GASB Statement 14, *The Financial Reporting Entity*. The Fund of the South Carolina Pork Board is included in the Financial Statements of the Department of Agriculture. The Board was established for promotion and research to strengthen the pork industry's position in the marketplace.

The South Carolina Pork Board, whose members are elected by the local producers, is the governing body of the South Carolina Pork Board.

The South Carolina Department of Agriculture administers the South Carolina Pork Board. The Board operates as a special revenue fund of the Department of Agriculture. The accompanying financial statements present the financial position and results of operations solely of the South Carolina Pork Board special revenue fund and do not include any other funds of the State of South Carolina.

**Basis of Presentation and Accounting**

The financial statements were prepared using the fund accounting principles per the Government Accounting Standards Board *Codification of Governmental Accounting and Financial Reporting Standards*. The accounts of the South Carolina Pork Board are a special revenue fund of the Department of Agriculture. Government resources are allocated to and accounted for in this individual fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled. All accounts of the South Carolina Pork Board are reported in the special revenue funds of the South Carolina Department of Agriculture financial statements. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting also relates to the timing of the measurements made, regardless of the measurement focus applied.

The Pork Board is a special revenue fund. Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specific purposes.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
PORK BOARD

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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All special revenue funds of governmental units are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. All revenues except assessment proceeds from the National Pork Board are recorded when received in cash because they are generally not measurable until actually received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Expenditure recognition is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long term amounts are not recognized as expenditures in special revenue funds. They are instead reported as liabilities in the General Long-Term Debt Account Group, which is not presented in the accompanying statement. Such amounts would include accumulated unpaid vacation, sick pay, and other employee amounts.

**Budgetary Controls**

The following is a description of the budgetary process of the South Carolina Pork Board:

Several months prior to the start of the fiscal year a budget proposal for revenue and expenditures is developed by the executive director of the South Carolina Pork Board. The proposal is developed through evaluation of historical financial data and on knowledge of future events. The proposal is presented to the Board for both discussion and review.

**General Fixed Assets and General Long-Term Debt**

Any general fixed assets purchased by the Pork Board are recorded as an expenditure in the statement of revenues, expenditures, and changes in fund balance when the liability is incurred. Because general fixed assets of the South Carolina Pork Board are accounted for in aggregate with the South Carolina Department of Agriculture the amounts of the Pork Board's general fixed assets are not available. Accounting for general fixed assets and general long term debt is not included in the financial statements of the South Carolina Pork Board special revenue fund. Any financial activity related to these accounts is included in the financial statements of the South Carolina Department of Agriculture.

**Compensated Absences**

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximum of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment,

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
PORK BOARD

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but are not entitled to any payment for unused sick leave. The Department calculates the compensated absences liability based on recorded balances of unused leave for which the Department expects to compensate employees through paid time off or cash payments. The leave liability, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments is recorded in the Department's general long term debt.

The Department of Agriculture - Pork Board had no liability for accrued compensated absences at June 30, 1999 because the Board had no employees at that time.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

All deposits of the South Carolina Department of Agriculture - Pork Board are under the control of the State Treasurer who, by law, has sole authority for investing State Funds.

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1999, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

**NOTE 3 - PENSION PLAN AND OTHER EMPLOYEE BENEFITS**

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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Annual Financial Report (CAFR) which includes financial

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The one full time employee and one temporary employee of the South Carolina Department of Agriculture - Pork Board are covered by a pension plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The Board's actual contributions to the SCRS for the fiscal year ended June 30, 1999 were \$993, and equaled the required contributions of 7.55 percent (excluding the surcharge) for the year. Employer contributions for fiscal year 1998 were \$1,639 and for fiscal year 1997 were \$1,384. Also, the Board paid employer group-life insurance contributions of \$20 in the current fiscal year at the rate of .15 percent of compensation.

Article X, Section 16, of the South Carolina Constitution requires that all State operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The System does not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the Board's liability under the plan is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Board's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Board recognizes no contingent liability for unfunded costs associated with participation in the plan.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

**Post-Employment and Other Employee Benefits**

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time employees of the South Carolina Department of Agriculture - Pork Board are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through the Board's applicable revenue sources for active employees and the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable revenue sources of the South Carolina Department of Agriculture - Pork Board for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 19,170 State retirees meet these eligibility requirements.

The South Carolina Department of Agriculture - Pork Board recorded employer contribution expenses for these insurance benefits for active employees in the amount of \$1,432 for the year ended June 30, 1999. As discussed above, the Board paid \$267 applicable to the surcharge included with the employer contributions for

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Division of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the South Carolina Department of Agriculture - Pork Board retirees is not available. By State law, the Board has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from system's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

**NOTE 4 - DEFERRED COMPENSATION PLANS**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. The employees of the South Carolina Department of Agriculture - Pork Board did not participate. The multiple-employer plans, created under Internal revenue code sections 457, 401(k), and 403(b) are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the Section 401(k) and 403(b) plans is placed in trust for the contributing employee. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw the current value of their contributions prior to termination if they meet requirements specified by the applicable plan. The State has no liability for losses under the plans.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

**NOTE 5 - RELATED PARTY TRANSACTIONS**

The Pork Board has significant transactions with the South Carolina Department of Agriculture and various other state agencies.



SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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Services received at no cost from State agencies include certain accounting records and payroll and disbursement processing from the Comptroller General;

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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check preparation, banking functions from the State Treasurer; and legal services from the Attorney General.

Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plans administration, personnel management, procurement services, property management and record keeping; and other centralized functions.

The South Carolina Pork Board had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plans contributions, office supplies, printing, telephone, interagency mail, and data processing services. The amounts of 1998-1999 expenditures applicable to related party transactions are not readily available.

The Department of Agriculture provides to the Board at no cost, office space, personnel and payroll services, clerical help, record keeping, disbursement processing, insurance coverage through the State Insurance Reserve Fund and other centralized functions. The amount of 1999 expenditures applicable to these services is not readily determinable.

The Executive Director of the Pork Board is a marketing specialist with the Department of Agriculture and performs various other duties within the Department of Agriculture in addition to serving the SC Pork Board. All salaries and benefits of this employee are paid by the Department of Agriculture. The value of the services provided by this employee to the SC Pork Board by the Department of Agriculture is not readily determinable.

The South Carolina Pork Board provided no services free of charge to other State agencies during the fiscal year.

The activities of the South Carolina Pork Board are controlled by the National Pork Board as of November 1986. This was provided for in the Pork Promotion, Research, and Consumer Information Act of 1985 (7 U.S.C. 4801-4819) (Pork Act).

This Act provided that the National Pork Board would be responsible to establish and conduct research and studies with the respect to the sale, distribution, marketing and utilization of pork and pork products. The National Pork Board shall distribute funds as established in the Pork Act received from assessments attributable to animals produced in the State. All assessments on pork sales in the State of South Carolina are collected by the National Pork Board, who in turn sends a portion back to the South Carolina Pork Board.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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The Board uses a separate non state controlled bank account for the South Carolina Pork Conference to deposit exhibit fees and other miscellaneous revenues of

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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the annual pork conference, and other functions. Registration fees are deposited to the Board's account and some of the expenditures for the conference are paid by the Board as educational expenditures. The transactions included in the pork conference account are not recorded by the Board and are not included in these statements. The Board at its discretion provided certain services related to the annual Pork Conference at no charge. The value of these services is not readily determinable. A summary of transactions for the Pork Conference Account for the year ended June 30, 1999 are as follows:

	<u>Pork Board Account</u>	<u>Pork Conference Account</u>
Deposits	\$ 2,535	\$ 14,402
Expenditures	\$ 3,289	\$ 10,636

Included in the expenditures of the Pork Conference account is \$589 paid to the National Pork Producers Council for an assessment to be paid from non checkoff funds. Checkoff funds are those funds received under the Federal Marketing Order that must be spent in compliance with the order for pork research, promotion and education. Non-checkoff are those funds generated by other activities that are not regulated by the Federal Marketing Order. For this reason, these groups of funds are separately maintained and administered.

The administration of the non-checkoff account is not the responsibility of the South Carolina Pork Board. The group that administers the non-checkoff account is comprised of the Executive Committee of the South Carolina Pork Board and one pork producer that has no affiliation with the South Carolina Pork Board. The non-checkoff funds are generated by exhibits and the trade show portion of the annual Pork Conference. These funds are deposited into the non-checkoff account and expenditures related to this portion of the conference are paid from the non-checkoff account. The revenues and expenditures of this account are disclosed due to the related party transactions involved.

The South Carolina Pork Board is responsible for the education portion of the Pork Conference. The registration fees for the seminars are deposited into the state controlled bank account and the expenditures for this portion of the program are paid as an allowable expenditure from the checkoff funds.

The contribution made to the National Pork Producers Council is made as a voluntary contribution from non-checkoff funds to support the non-checkoff activities of the National Pork Producers Council. The Pork Conference account was not audited.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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**NOTE 6 - RISK MANAGEMENT**

The South Carolina Department of Agriculture - Pork Board is exposed to various risks of loss and maintains State or commercial insurance coverage for certain risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the South Carolina Department of Agriculture - Pork Board. The South Carolina Department of Agriculture - Pork Board has not had any claims in the past three years. There were no significant reductions in insurance coverage from coverage in the prior year. The South Carolina Department of Agriculture pays insurance premiums to certain State agencies and commercial insurers to cover risk that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered premium losses sustained during the policy period in accord with the insurance policy and benefit program limits. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of covered employees for health and dental insurance benefits (Office of Insurance Services); and
2. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).
3. Claims of covered public employees for workers' compensation insurance benefits (State Accident Fund).
4. Claims of covered public employees for unemployment compensation insurance benefits (Employment Security Commission).

The South Carolina Department of Agriculture and other entities pay premiums to the states Insurance Reserve Fund (IRF) which issues policies, accumulate assets to cover the risks of loss and pays claims incurred for covered losses related to the following Fund assets, activities, and/or events.

1. Personal property and equipment - Eighty percent of each loss is covered by the IRF. Losses are subject to a \$250 deductible.
2. Data processing equipment - Coverage is up to \$100,000 per loss with a \$250 deductible.
3. Torts

The IRF is a self insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses. The IRF's rates are determined actuarially.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -  
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**NOTES TO FINANCIAL STATEMENTS**

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State agencies are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

The South Carolina Department of Agriculture purchases insurance coverage for employee fidelity bond insurance coverage arising from theft or misappropriations. The policy has a \$1,000 deductible with a coverage limit of \$25,000.

The South Carolina Department of Agriculture - Pork Board has not recorded any estimated losses or expenditures related to the deductible or policy limits because there is no evidence of asset impairment or other information to indicate a loss should be recorded.

All payments for insurance to the IRF and for fidelity coverage are made by the Department and the Pork Board does not reimburse any of these expenses.

**NOTE 7 - THE YEAR 2000 ISSUE**

The Year 2000 Issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The Year 2000 Issue may affect electronic equipment containing computer chips that have date recognition features - such as environmental systems, elevators, and vehicles - as well as computer software programs. In addition, the Year 2000 Issue affects not only computer applications and equipment under the South Carolina Department of Agriculture - Pork Board's control but also the systems of other entities with which the Board transacts business. Some of the Board's systems/equipment affected by the Year 2000 Issue are critical to the continued and uninterrupted operations of the Board.

Because of the unprecedented nature of the Year 2000 Issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Department of Agriculture is or will be Year 2000 ready, that the Department of Agriculture's remediation efforts will be successful in whole or in part, or that parties with whom the Department of Agriculture does business will be Year 2000 ready.

All significant software applications are handled through the Department of Agriculture and their systems and equipment have been subjected to the following stages of work to address Year 2000 Issues:

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**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 1999

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Awareness Stage - Establishing a budget and project plan for dealing with the Year 2000 Issue.

Assessment Stage - Identifying the systems and components for which year 2000 compliance work is needed.

Remediation Stage - Making changes to systems and equipment.

Validation/testing Stage - Validating and testing the changes that were made during the remediation stage.

The Department has completed the validation/testing stages for the system and equipment.

The Department is making contingency plans for the possible failure of computer systems and embedded devices and also for possible interruptions to the Department's business.



## COMPLIANCE LETTER

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

We have audited the balance sheet of the South Carolina Department of Agriculture - Pork Board special revenue fund for the year ended June 30, 1999, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. Our audit was made in accordance with generally accepted auditing standards. Our opinion on the financial statements was qualified due to the uncertainty of the effect on this Board of year 2000 issues.

In connection with our audit, nothing came to our attention that caused us to believe that the South Carolina Department of Agriculture - Pork Board was not in compliance with Section 1230.74 of the Pork Promotion, Research and Consumer Information Order Final Rule relating to the use of checkoff funds for the purpose of influencing legislation. However, it should be noted that our audit was not directed primarily towards obtaining knowledge of such noncompliance.

Columbia, South Carolina  
September 7, 1999

## COMPLIANCE LETTER

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

In connection with our audit of the financial statements for the year ended June 30, 1999, we noted that there were no invested funds held by the South Carolina Pork Board. We also reviewed the Agriculture Marketing Service's (AMS) Investment Policies for Commodity Programs, dated December 1987.

In connection with our audit, since the South Carolina Pork Board does not hold invested funds nor does it invest any funds, nothing would have come to our attention to indicate that the South Carolina Pork Board special revenue fund was not in compliance with AMS policies regulating investments.

Columbia, South Carolina  
September 7, 1999

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL**

South Carolina Department of Agriculture -  
Pork Board  
Board of Directors  
Columbia, South Carolina

We have audited the financial statements of the South Carolina Department of Agriculture - Pork Board for the year ended June 30, 1999, and have issued our report thereon dated September 7, 1999. In planning and performing our audit of the financial statements of the South Carolina Department of Agriculture - Pork Board, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. Our opinion on the financial statements was qualified due to the uncertainty of the effect on the Board of year 2000 issues.

The report is intended solely for the use of management, the members of the Board of the South Carolina Department of Agriculture - Pork Board and the National Pork Board and should not be used for any other purpose.

Columbia, South Carolina  
September 7, 1999